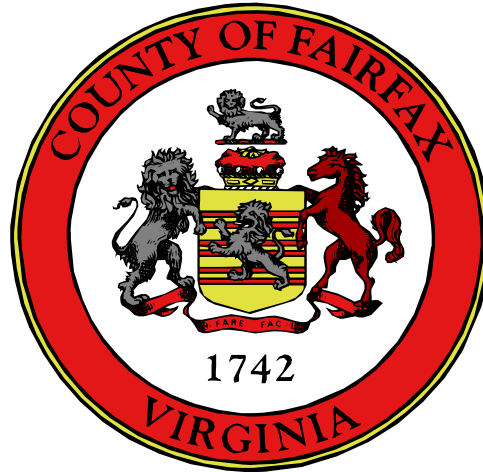


INTERNAL AUDIT REPORT

Audit of School Age Child Care (SACC) Fee Billing and Collection



Fairfax County Internal Audit Office

**FAIRFAX COUNTY, VIRGINIA
INTERNAL AUDIT OFFICE
M E M O R A N D U M**

TO: Anthony H. Griffin
County Executive

DATE: October 18, 2001

FROM: Ronald A. Coen, Director
Internal Audit Office

SUBJECT: Report on the *“Audit of SACC Fee Billing and Collection”*

This is a report on the *“Audit of SACC Fee Billing and Collection”*. It was performed as part of our FY 2001 Annual Audit Plan.

The findings and recommendations of this audit were discussed with the Department of Administration for Human Services (DAHS) and the Office for Children (OFC). We have reached agreement on all of the recommendations and I will follow up periodically until implementation is complete. Their responses are incorporated into the report and the full response is attached at the end of the report. After your review and approval, we will release the report to the Board of Supervisors.

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Introduction

School-Age Child Care (SACC) is a Fairfax County Office for Children program. Its mission is to provide quality child care to school-age children whose parents are working, attending school, or medically unable to care for their children. SACC is structured to serve children five days a week before school, after kindergarten, after school, and on teacher workdays during the school year at 125 elementary schools. SACC operates winter, spring, and summer programs during school breaks at consolidated sites. Over the course of a year, SACC enrolls approximately 13,530 children in the various programs.

Approximately 75% of program costs are covered by fees charged the parents whose children receive SACC services. The remaining 25% represent County subsidy for fee reductions for low-income families and additional staffing for special needs children. Other resources providing financial assistance include the agency's USDA Child Food Program that subsidizes the cost of nutritional meals in childcare settings, and state funding through the Child Care Assistance Program.

In FY 2000, actual SACC fees collected totaled \$14.5 million, versus total costs incurred of \$19.5 million. The FY 2001 Budget Plan projects SACC fees at \$15.9 million, while the FY 2002 Budget Plan estimates SACC fee revenues to reach approximately \$17 million by fiscal year-end. Program costs, on the other hand, are projected to increase to \$21.5 million and \$22.4 million in FY 2001 and FY 2002, respectively. These projected cost increases are due to the planned expansion and enhancement of SACC services at existing sites and the opening of additional program sites within the County.

Since SACC program costs are financed mainly from fees collected for SACC services rendered, the need for an efficiently run fee billing and collection operation cannot be overemphasized. In addition to providing funds to conduct the SACC program, a well-managed collection operation provides greater budgetary control and improves cash flow.

Purpose and Scope

This audit was performed as an amendment to our FY 2001 Audit Plan. Our overall audit objective was to evaluate the adequacy of the Office for Children and Human Services Administration efforts to manage the SACC client fee billing and collection process. Our specific objectives included the following:

- To determine that proper internal controls exist and are working as intended for the safeguarding and deposit of fee collections;
- To determine that fees recorded for FY 2001 are accurately and completely stated in the SACC registration and accounts receivable systems and in FAMIS;
- To determine compliance with the Department of Finance's Accounting Technical Bulletin (ATB) No. 036, *Billing and Collection Procedures for Billable Revenue*, and internal department policies and procedures;
- To verify that there is an examination of collection trends compared to a performance goal.

The scope of our audit included a review of the billing, collection, recording, and monitoring processes relating to the SACC fee revenues. The audit period covered July 2000 through May 2001 (FY 2001).

Methodology

We reviewed, analyzed and evaluated SACC's internal control procedures and the combined efforts of the Office for Children and the Human Services Administration to manage the SACC fee billing and collection function. Our audit approach involved interviewing appropriate employees, observation of employees' work functions, detailed testing of billing and collection transactions, and evaluating the processes for compliance with sound internal controls, DOF requirements, and internal policies and procedures. Where we noted opportunities for improvement, we brought them to management's attention.

This audit did not include an examination of the SACC registration and accounts receivable application systems. We were also unable to test the accounts receivable delinquency reports because none are currently provided by the system specifically for the SACC program. The audit was performed in accordance with generally accepted government auditing standards.

Executive Summary

Our audit of the SACC fee billing and collection operation found that, overall, the controls are adequate. Fees are correctly stated in the SACC registration and accounts receivable systems and in FAMIS. DAHS and OFC are conscientiously managing and administering their functions within the limitations of their computer system. We did note some opportunities for improvement in the areas of compliance with ATB 036 requirements, controls over incoming mail payments, responses to SACC's roster check procedure, and need for supporting documentation for all transactions. These are summarized below and discussed in detail in the report.

- The Oracle Accounts Receivable system does not provide DAHS Finance/SACC with the necessary delinquency and other system reports to allow them to manage their fee billing and collection function efficiently, monitor the status of their receivables, and comply fully with the requirements of ATB 036. These system limitations have existed for two years and actually impaired Internal Audit's ability to test certain aspects of the accounts receivable. Management is reviewing options to replace or enhance the current system to include the delinquency and other system reports. We recommend that management give the system reporting top priority and obtain the needed reports as soon as possible.
- DAHS uses the Budget Plan's estimated collections as the standard in measuring their fee collection performance, instead of using collections as a percentage of total billings per ATB 036. We recommend they also track collections as a percentage of billings. This method would allow them to accurately evaluate the effectiveness of their billing and collection processes.
- At the time of our audit, SACC incoming mail payments were at risk of getting lost or stolen during the time period between the receipt of the mail and the recording of the payments in the payment receipt logbook. We recommended, and DAHS and OFC immediately implemented, a procedure to place the mail under the dual control of two employees during this time period to minimize the assets' exposure to loss or theft.
- About 17% of the 124 SACC schools do not send back the required confirmation responses to SACC Registration's monthly roster checks. The roster checks assist SACC Registration in ensuring that all participants are reflected correctly in the system and that those who have cancelled service are properly removed from the system. We recommend that SACC management ensure full compliance by all SACC locations.
- Three of the 24 fee adjustment transactions in our sample had no supporting documentation. We recommend that parents' requests for fee adjustments (due to past non-participation or participation of their child in SACC, or due to a change in their incomes) be verified against documentation such as roster checks, school attendance records, or evidences of reduced incomes, as the case may be.
- DAHS A/R does not notify the Department of Finance (DOF) timely of the reversal (chargeback) entries that they enter in FAMIS for payment checks returned by Bank of America. Also, DAHS A/R does not always document the reasons and authorization for not charging customers a return check fee as prescribed by department policy. We recommend that A/R provide DOF with the chargeback information within 5 days of processing the returned check. In addition, if the return check fee is waived, A/R should document the reason for not charging the fee and the person who authorized the waiver.

- Families that are not residents of Fairfax County participate in the SACC program. The wording in the formal written policy is unclear as to the proper inclusion of non-County residents in SACC. We recommend that SACC Registration amend the existing official written policy to clearly state the exceptions they have made to the residency requirement for eligibility.

Internal Audit identified one employee whose full income had not been reported to the SACC program. Income is the basis for fees on a graduated scale, with reductions for lower income clients. This circumstance has been addressed and a repayment plan is in progress. Internal Audit will assist SACC and DAHS in establishing tests of employee income reporting.

Comments and Recommendations

1. DAHS Finance/SACC does not have the necessary delinquency and other system reports to allow them to manage their fee billing and collection function efficiently, monitor the status of their receivables, and comply fully with the requirements of ATB 036. The current accounts receivable system has been in operation for two years.

The Oracle "off the shelf" Accounts Receivable (A/R) package used by DAHS does not provide the 30, 60, and 90-day delinquency reports, as well as a report of total amount billed, total amount collected and balance due, specifically for the SACC program, as required by ATB 036. The aging reports that the system currently produces are invoice-specific rather than customer specific. The reports also combine SACC, Comprehensive Services Act (CSA) and Employees' Child Care Center (ECCC) accounts together instead of breaking them out. Moreover, the accounting rule used by the system when it was first set up was to apply payments to the most recent "invoices" instead of the oldest. At the request of DAHS, Oracle changed this rule sometime in late 1999, but the system did not go back to correct prior incorrect invoice payment applications. All these facts render the system's aging reports unreliable, inaccurate, and unusable for the SACC Accounts Receivable staff and management.

DAHS A/R was also unable to provide the following basic reports that we asked for during the audit due to the system's inability to produce them:

- Customer Accounts Receivable Trial Balance - a report listing the balance due for each customer, and footed to show the total amount of outstanding receivables;
- A report listing Customers with Credit Balances; and
- A report of Active Accounts with the Billing Flag Removed.

The above reports, along with others considered essential in managing the SACC revenue function, are included in the list of customized reports that A/R had requested from Oracle in July 2000. However, the project was postponed as management is reviewing options to replace or enhance the current system. The reports, therefore, were still unavailable at the time of our audit.

ATB 036 requires that, in order to track the results of collection activities, all agencies should prepare, at a minimum, a quarterly outstanding receivables report that groups data in the following order:

- Current
- More than 30, but less than 61 days past due
- More than 60, but less than 91 days past due
- More than 90 days past due

ATB 036 requires that this aging report be made available to the Billable Revenue Team in the Office of Finance. The aging of receivables serves as an important management control function to determine the true value of the receivables and the effectiveness of the collection effort.

DAHS is unable to comply fully with the requirements of ATB 036 and to monitor the status of their receivables without the reports described above. In addition, the billing and collection function cannot be performed efficiently, absent the necessary system reports. For example, DAHS A/R sends monthly collection letters to delinquent customers in accordance with department policy. To do this, all four of their employees have to go through the individual customer billing statements each month (about 8,000 are generated monthly), looking for "balance due" amounts that exceed the customer's monthly payment. They then divide the balance due by the monthly payment amount to get the number of months the account is past due. The same is true when A/R tries to identify the customers with credit balances so that refunds can be sent to them. They have to go through the time-consuming process of examining the individual customer statements each month, looking for credit balances. It is evident from these examples that the system's inability to provide the necessary customized reports increases A/R's workload and adversely affects the department's productivity and efficiency.

Recommendation

Management should obtain the customized reports as soon as possible. The DAHS A/R staff is to be commended for the high level of effort they are exerting to complete their tasks timely without the necessary tools from their system. These reports are crucial to the effective management of SACC's billing and collection function and for full compliance with the requirements of ATB 036.

Agency Response - DAHS

DAHS A/R will work to obtain the necessary reports from the contractor. Based on the contractor's availability, our anticipated completion date is December 2001.

2. DAHS uses the Budget Plan's estimated collections as the standard in measuring their fee collection performance, instead of using collections as a percentage of total billings per ATB 036.

DAHS has established a revenue collection goal and implemented a process of evaluating its performance against this goal to comply with ATB 036. However, the performance goal DAHS uses is the estimated collection for the year as shown in the Budget Plan, whereas ATB 036 suggests that collections as a percentage of total billings be used as the agency's goal or standard.

The use of the estimated collections in the Budget Plan as a performance standard does not serve as a direct measure of how well DAHS/SACC management has performed or managed its fee collection process. It does not show whether all amounts billed were collected, or whether a large percentage of billings were not collected, etc. Management is, therefore, not provided with information that would aid them in evaluating the overall effectiveness of the billing and collection processes and in deciding what changes should be made to improve them.

DAHS uses the Budget Plan's estimated collections as its performance measurement and reports revenue estimates and actuals to the Budget Office. DAHS, therefore, ties its collection efforts closely with the County's budget process, and uses the budget estimate as its performance goal. While this standard is useful for presenting to the Budget Office a picture of how closely they are

achieving their revenue estimates, DAHS agreed that using collections as a percentage of total billings would shed more light on the actual internal agency processes. However, they are unable to implement the latter procedure at this time due to the inability of the Oracle A/R system to provide a report of total billings and aging reports of fee receivables specifically for the SACC program.

Recommendation

DAHS management should continue providing the Budget Office with statistics on how well they are achieving the revenue estimates in the Budget Plan. However, they should also track collections as a percentage of billings, as suggested by ATB 036, to be able to evaluate the effectiveness of their billing and collection processes. Management should obtain the required customized reports from Oracle as soon as possible to allow them to implement this procedure.

Agency Response - DAHS

DAHS A/R will work to obtain the necessary reports and will begin tracking collections as a percentage of billings once the reports are available. The anticipated date of completion is December 2001.

3. SACC incoming mail payments are at risk of getting lost or stolen during the time period between the receipt of the mail and the recording of the payments in the payment receipt logbook.

Only one person in the SACC Accounts Receivable area performs the tasks of receiving and opening mail containing payments received in-house, removing the payment checks from the envelopes, and recording the checks in a logbook. Similarly, in the SACC Registration area, one employee at the Reception Desk receives the mail and later delivers it to the SACC Registrar. The SACC Registrar then opens the mail at his/her work station, removes the payment checks and money orders from the envelopes, fills out customer receipts in triplicate from the Receipt Book, attaches the original receipt to the payment check or money order, and places the payments in the locked box. During this time period when one individual has total control over the assets and no accountability has yet been established, the payments are highly vulnerable to theft. For the week of April 9-13, 2001, SACC A/R's payment logbook showed 47 payments, consisting of both checks and money orders received through the mail, totaling \$10,774 or an average of \$2,155 per day. SACC Registration's Receipt Book showed 15 payments totaling \$8,903 or an average of \$1,781 per day for the same week.

An objective of a good internal control system is to ensure that assets are adequately safeguarded from loss or theft. Controls to minimize exposure to such occurrences include dual control over the assets and separation of duties. The fee remittances received through the mail could get lost or stolen and not be detected timely. This could result in lost revenues to the SACC program and the County. It could also result in the sending of unnecessary past due notices to the customer, creating a poor image for the County.

Recommendation

The mail should be under the dual control of two employees from the time it is received from the mail carrier up to the time the payments are recorded in the logbook. Both employees should initial

the logbook after recording. This process minimizes the assets' exposure to loss or theft. SACC Accounts Receivable and SACC Registration immediately implemented this recommended procedure as soon as we brought it to their attention during the course of our audit. **Therefore, no response is necessary.**

4. Approximately 17% of the 124 SACC schools do not send back the required confirmation responses to SACC Registration's monthly roster checks.

In January 2001, SACC Registration began sending out monthly rosters of participating children to the SACC teachers for comparison to school attendance records. The teachers are asked to respond by sending back a form indicating discrepancies between the rosters and the school attendance records. SACC's original procedure required that teachers submit a monthly response only if there were discrepancies. Several months into the school year, it was decided that all centers would be required to turn in roster checks each month whether or not a discrepancy had been found. Our review of the roster check records for January, February and March revealed that 124 schools were sent the rosters for each of these months, but only 104 schools, or 84%, responded in January, and only 103 schools, or 83%, responded in February and March. This brings the noncompliance rate to 16% in January and 17% in February and March. In addition, there were two schools, Groveton and Hayfield, that failed to submit the monthly roster responses for all three months, 14 schools that failed to submit their responses for two months, and 27 schools that did not send a response for one month.

The purpose of the monthly "roster check" procedure is to assist SACC Registration in ensuring that all children receiving SACC services are reflected correctly in the SACC registration system and that all participants who have cancelled service are properly removed from the system. It is, therefore, imperative that the teachers compare the roster to their attendance sheets and to respond by sending back the SACC roster check memorandum, indicating the nature of the discrepancies noted or that there were no discrepancies. SACC would be unable to update the SACC Registration system for cancellations and reinstatements of participants, or to correct the system for errors unless the teachers perform the required comparison and inform SACC of the results. This would further result in underbillings of SACC fees for those participants who are attending the SACC program but are not listed on the system rosters, and overbillings for those who have cancelled and have not been attending the program but are still carried on the system as active participants.

Recommendation

We recommend that SACC management take steps to ensure full compliance by all SACC teachers to the requirement that they submit a response to the monthly roster check, whether or not they have any discrepancies to report.

Agency Response - OFC

A checklist is in place. One hundred percent response will be implemented with follow-up phone calls or e-mails as necessary. The anticipated completion date is September 2001.

5. Three of the 24 fee adjustment transactions in our sample had no supporting documentation.

We reviewed a random sample of 24 fee adjustment transactions and found three that had no supporting documentation. SACC Registration had entered cancellations of service in error for two accounts, and assessed a fee based on a wrong adjusted net income for a third account. Three

additional adjustments in our sample were made to correct these errors. SACC has a policy of verifying parents' requests for adjustments against roster checks and actual school attendance records. Errors are corrected as a result of the verification process. Cancellations are processed immediately based on parent's phone calls to expedite the registration process for children on the waiting list.

A sound internal control system requires that transactions be properly supported by adequate documentation. Transactions include fee adjustments made for cancellations, additions, reinstatements of service, and changes in the customer's income level. Supporting documentation ensures that the adjustment is proper and accurate.

Adjustment transactions without proper supporting documentation could be unauthorized or erroneous. As a result, billings may be incorrect and additional research may be required to correct errors. SACC Registration usually processes cancellations and reinstatements based on phone calls received from parents. Due to the registrars' workload, they are sometimes unable to verify the parents' reports against their roster checks or the SACC teachers' attendance records.

Recommendation

We recommend SACC Registration continue to ensure that parents' requests for fee adjustments are further verified against SACC's roster checks, actual school attendance records, or evidence of reduced incomes, as the case may be. These records comprise the supporting documentation for the adjustments.

Agency Response - OFC

SACC will continue our practice of verifying parents' requests for fee adjustments against SACC's roster checks.

6. The Department of Finance (DOF) is not notified timely of the chargeback journal entries entered in FAMIS by DAHS/SACC Accounts Receivable (A/R) for payment checks returned by Bank of America. In addition, A/R does not always document the reasons for not charging the customer a check return fee in accordance with department policy.

We selected a sample of 10 returned checks from the Department of Finance's "still outstanding" list for testing. Our objective was to determine A/R's timeliness, accuracy and proper handling of payment checks returned by Bank of America (through the Department of Finance). We found that DAHS/SACC A/R is processing returned checks timely and accurately. The returned checks were properly reversed on the customer statements effective on the date the payment was originally credited to the customer's account. They were also entered as chargebacks (or revenue reductions) in FAMIS. These were done within one to 10 days of A/R's receipt of the returned checks from DOF.

We did note the following areas that need improvement:

- DAHS/SACC Accounts Receivable does not inform DOF timely of the reversal journal entry numbers, and the dates the entries were posted in FAMIS when they process the returned checks. For the ten returned checks in our test sample, the time lag in reporting the chargebacks to DOF

ranged from one-and-a-half months to over three months. The chargeback journal entry information enables DOF to update its subsidiary records and facilitates their reconciliation of the Returned Checks general ledger account.

- No return check fee was charged for three of the 10 returned checks in our sample, contrary to department policy. Of these three cases, only one had a documented explanation in the customer's file as to why the fee was not charged. The two others had no documentation in the files stating the reason for not charging the fee and who approved the waiver. A good internal control system requires the existence of an audit trail that identifies the sequence of actions for an event and the rationale behind them, as well as the people that caused an event to occur. Written documentation in the files explaining why an internal policy requirement was waived (such as the charging of a return check fee), and who approved the waiver, fulfills this control requirement.

Recommendation

- (a) We recommend DAHS/SACC A/R provide DOF with the chargeback journal entry number and date entered in FAMIS within 5 days of processing the returned check.
- (b) We recommend DAHS/SACC A/R ensure that a return check fee is charged in accordance with department policy. If the fee is waived, A/R should provide sufficient documentation in the customer's file explaining the reason for not charging the fee and the person who authorized the waiver.

Agency Response - DAHS

- (a) DAHS A/R is complying with this recommendation and will continue to ensure that DOF receives the information within 5 business days of processing the returned check.
- (b) Although the DAHS A/R managers currently authorize the returned check charges cover sheet, the department policy has now been amended to require the authorizing manager to date and authorize each customer's documentation individually, along with the reason the waiver was granted.

7. Families that are not residents of Fairfax County participate in the SACC program. The wording in the formal written policy is unclear as to the proper inclusion of non-County residents in SACC.

In reviewing DAHS/SACC A/R's adjustment transaction files for May 2001, we pulled a batch of debit adjustment transactions that contained two participants in the SACC program that were not residents of Fairfax County. County policy, as published in the official Parent Handbook for SACC 2000-2001, requires that families must be residents of Fairfax County to be eligible to participate in SACC. However, SACC Registration allows the participation of non-county residents, but charges them full fee. The official written policy is unclear as to whether non-county children need not comply with the residency requirement if they pay full fee. Readers of the policy, including prospective applicants for the SACC program, may misinterpret the intent of the policy without a clearly stated written policy that fully describes the residency requirement and the exemptions that may be granted.

We further noted that the SACC registrars do not have a list of towns and cities of Fairfax County to use as a reference when enrolling new participants or changing the residence addresses of current

participants. The registrars normally ask for the parents' residence address at the time of registration as required by department procedure. However, they may not be aware that certain towns, e.g., Ashburn or Sterling, are not part of Fairfax County. The registrars may unknowingly enroll non-County residents in the SACC program at reduced fees without a reference list of Fairfax towns and cities.

Recommendation

- (a) We recommend SACC Registration amend or expand the existing official written policy regarding the county-residency requirement for SACC eligibility, to include their verbal policy of exempting certain non-county residents who are charged full fee.
- (b) We recommend SACC Registration provide the registrars with an alphabetical list of all the towns and cities of Fairfax County to use as a reference when enrolling new participants or changing the residence addresses of current participants. Any addresses not included in the list would alert the registrars to the fact that the family is not a Fairfax County resident and would then be able to charge full fee for the non-residents as prescribed by department policy.

Agency Response - OFC

- (a) The policy has been amended to state that children “enrolled in a Fairfax County elementary school” may attend SACC.
- (b) A list has been compiled and provided to SACC registrars.